FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS 2019 SECOND QUARTER AND SIX-MONTH NET INCOME

For 2:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported combined net income of $1.4 billion and $2.7 billion for the three and six months ended June 30, 2019, as compared with net income of $1.4 billion and $2.6 billion for the same periods of the prior year.

"Notwithstanding the many challenges faced by our member-borrowers, including uncertainties around trade policies, excessive rains and another year of reduced farm income, the overall credit quality of the System's loan portfolio remained relatively stable," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The System remains committed to supporting rural communities and agriculture in all market environments. Continued strong capital levels position us well to execute on our mission."

Results of Operations

Second Quarter and Six-Month 2019 Results Compared to Second Quarter and Six-Month 2018 Results

Net interest income increased $66 million or 3.3% to $2.0 billion for the second quarter of 2019 and $133 million or 3.4% to $4.1 billion for the six months ended June 30, 2019, as compared with the same periods of the prior year. The increases in net interest income primarily resulted from higher levels of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets increased $15.2 billion or 4.7% and $15.9 billion or 4.9% to $339.8 billion and $338.9 billion for the three and six months ended June 30, 2019, as compared with the prior year periods.

The net interest margin was 2.40% for both the three and six months ended June 30, 2019, as compared with 2.43% and 2.44% for the same periods of the prior year. The decline in the net interest margin for the three- and six-month periods primarily resulted from decreases in the net interest spread of 11 and 13 basis points to 2.00% for both periods, as compared with 2.11% and 2.13% for the prior year periods. The decline in the net interest spread was the result of increased debt costs and lower lending spreads due to continued competitive market pressures. The net interest margin during both of these periods was positively impacted by an eight and nine basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $1 million and $66 million for the three and six months ended June 30, 2019, as compared with provisions for loan losses of $18 million and $87 million for the three and six months ended June 30, 2018. The provision for loan losses for the first six months of 2019 primarily reflected a higher level of overall agribusiness lending activity and a modest deterioration in credit quality in the rural infrastructure sector and, to a lesser extent, the agribusiness sector. In addition, the provision for loan losses for the first half of 2019 included industry-specific reserves related to the dairy, grain and cattle industries. The provision for loan losses for the first six months of 2018 primarily reflected specific reserves associated with a limited number of customers in the agribusiness and rural power sectors, as well as increased credit risk exposure resulting from credit quality deterioration and growth in agribusiness loan volume. The provision for loan losses for the first six months of 2018 also included industry-specific reserves for the grain industry.

Noninterest income decreased $25 million or 12.7% to $172 million and $34 million or 9.6% to $320 million for the three and six months ended June 30, 2019, as compared with the same periods of the prior year. The decrease for both the three- and six-month periods was due, in part, to decreases in net gains on sales of investments and other assets of $25 million.

Noninterest expense increased $51 million or 6.9% to $786 million and $96 million or 6.5% to $1.6 billion for the three and six months ended June 30, 2019, as compared with the same periods of the prior year. The increases for the three- and six-month periods were primarily due to increases in salaries and employee benefits, occupancy and equipment expense and purchased services. Salaries and employee benefits increased $26 million and $57 million for the three and six months ended June 30, 2019, as compared to the same periods of the prior year, as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased $8 million and $16 million for the three and six months ended June 30, 2019, as compared to the same periods of the prior year, primarily due to increases in facilities and maintenance expenses. For the three- and six-month periods ended June 30, 2019, purchased services increased $9 million and $13 million due to increases in technology and other consulting services related to various business initiatives.

The provisions for income taxes were $44 million and $83 million for the three and six months ended June 30, 2019, as compared with $34 million and $78 million for the three and six months ended June 30, 2018. The effective tax rate was 3.0% and 2.9% for the six months ended June 30, 2019 and 2018.

Second Quarter 2019 Compared to First Quarter 2019

Combined net income was $1.4 billion for the second quarter of 2019, as compared with $1.3 billion for the first quarter of 2019. Positively impacting net income for the three months ended June 30, 2019 was a decrease in the provision for loan losses of $64 million and increases in noninterest income of $24 million and net interest income of $13 million. The provision for loan losses decreased in the second quarter of 2019 due, in part, to loan loss reversals at certain System institutions resulting from changes to industry specific reserves. Noninterest income for the second quarter of 2019 was positively impacted by a $10 million increase in net gains on derivative and other transactions and a $9 million increase in net gains on sales of investments and other assets.

Loan Portfolio Activity

Gross loan volume was relatively flat, increasing 1.0% to $276.2 billion at June 30, 2019, as compared with $273.4 billion at December 31, 2018. Real estate mortgage, as well as processing and marketing loans, increased due to financing for new and existing customers. Production and intermediate-term loans decreased primarily due to seasonal repayments, partially offset by draws on lines of credit during the planting season.

Credit Quality

The System's accruing loan volume was $274.2 billion at June 30, 2019, as compared with $271.5 billion at December 31, 2018. Nonaccrual loans increased $180 million during the first six months of 2019 to $2.1 billion at June 30, 2019. This increase in nonaccrual loans was due to credit quality deterioration impacting a limited number of borrowers primarily in the dairy and cattle industries. At June 30, 2019, 59.7% of nonaccrual loans were current as to principal and interest, as compared with 65.3% at December 31, 2018.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased $248 million during the first six months of 2019 to $2.5 billion at June 30, 2019. These nonperforming assets represented 0.92% of the System's loans and other property owned at June 30, 2019 and 0.83% at December 31, 2018.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans and accrued interest receivable were 96.4% at June 30, 2019 and 96.5% at December 31, 2018. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.36% at June 30, 2019, as compared with 0.28% at June 30, 2018.

The allowance for loan losses was $1.8 billion at June 30, 2019, as compared with $1.7 billion at December 31, 2018. Net loan charge-offs of $17 million were recorded during the first six months of 2019, as compared with net loan charge-offs of $25 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.64% at June 30, 2019 and 0.63% at December 31, 2018. The allowance for loan losses was 69% of the System's total nonperforming assets and 85% of its nonaccrual loans at June 30, 2019, as compared with 75% and 91% at December 31, 2018. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $63.0 billion at June 30, 2019 and $60.2 billion at December 31, 2018, and represented 22.8% of System loans at June 30, 2019, as compared with 22.0% at December 31, 2018.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were $66.1 billion at June 30, 2019 and $66.5 billion at December 31, 2018. The System's liquidity position provided 178 days coverage of maturing debt at June 30, 2019, as compared with 182 days coverage at December 31, 2018.

Total capital increased $2.8 billion during the first six months of 2019 to $61.2 billion. The System's retained earnings increased $2.0 billion to $48.4 billion during the first six months of 2019 due to net income earned and retained as well as a $66 million transfer of restricted capital to retained earnings. The transfer was as a result of excess insurance funds returned to the System by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Accumulated other comprehensive loss decreased $641 million to $1.1 billion during the first six months of 2019, as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 17.4% at June 30, 2019, as compared with 16.7% at December 31, 2018.

About the Farm Credit System

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow through the four Banks and 68 affiliated Associations. Farm Credit has been fulfilling this mission for over a century by providing farmers with the capital they need to make their business successful and by financing vital infrastructure and communication services that rural communities need to create jobs and drive economic growth. For more information about Farm Credit, please visit farmcredit.com.

Additional Information

Copies of this press release, as well as other financial information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at farmcreditfunding.com.

For further information and copies of annual and quarterly information statements, contact:

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Forward-Looking Statements

Any forward-looking statements in this press release are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the System's annual and quarterly information statements. The System undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

STATEMENT OF CONDITION DATA

	June 30, 2019 (unaudited)	December 31, 2018 (audited)
Cash and investments	$ 66,096	$ 66,471
Loans	276,229	273,378
Less: allowance for loan losses	(1,755)	(1,713)
Net loans	274,474	271,665
Accrued interest receivable	2,840	2,732
Other assets	4,063	3,170
Restricted assets	5,047	4,954
Total assets	$352,520	$348,992
Systemwide Debt Securities:		
Due within one year	$113,954	$109,228
Due after one year	169,584	172,231
Total Systemwide Debt Securities	283,538	281,459
Other bonds	1,571	1,817
Other liabilities	6,186	7,272
Total liabilities	291,295	290,548
Preferred stock	3,181	3,131
Capital stock	1,959	1,937
Additional paid-in-capital	3,712	3,712
Restricted capital	5,047	4,954
Accumulated other comprehensive loss	(1,094)	(1,735)
Retained earnings	48,420	46,445
Total capital	61,225	58,444
Total liabilities and capital	$352,520	$348,992

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2019	2018	2019	2018
Interest income	$3,804	$3,359	$7,565	$6,539
Interest expense	(1,765)	(1,386)	(3,500)	(2,607)
Net interest income	2,039	1,973	4,065	3,932
Provision for loan losses	(1)	(18)	(66)	(87)
Noninterest income	172	197	320	354
Noninterest expense	(786)	(735)	(1,568)	(1,472)
Income before income taxes	1,424	1,417	2,751	2,727
Provision for income taxes	(44)	(34)	(83)	(78)
Net income	$1,380	$1,383	$2,668	$2,649

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2019 (unaudited)	March 31, 2019 (unaudited)	December 31, 2018 (audited)	September 30, 2018 (unaudited)	June 30, 2018 (unaudited)
Cash and investments	$ 66,096	$ 64,902	$ 66,471	$ 60,264	$ 62,802
Loans	276,229	274,151	273,378	265,007	261,985
Less: allowance for loan losses	(1,755)	(1,768)	(1,713)	(1,682)	(1,666)
Net loans	274,474	272,383	271,665	263,325	260,319
Accrued interest receivable	2,840	2,627	2,732	3,073	2,424
Other assets	4,063	3,812	3,170	3,445	3,471
Restricted assets	5,047	4,966	4,954	4,881	4,811
Total assets	$352,520	$348,690	$348,992	$334,988	$333,827
Systemwide Debt Securities	$283,538	$281,080	$281,459	$268,462	$268,881
Other bonds	1,571	1,529	1,817	2,056	1,587
Other liabilities	6,186	6,359	7,272	6,253	6,027
Total liabilities	291,295	288,968	290,548	276,771	276,495
Preferred stock	3,181	3,187	3,131	3,177	3,194
Capital stock	1,959	1,928	1,937	1,919	1,894
Additional paid-in-capital	3,712	3,712	3,712	3,712	3,712
Restricted capital	5,047	4,966	4,954	4,881	4,811
Accumulated other comprehensive loss	(1,094)	(1,484)	(1,735)	(2,132)	(2,044)
Retained earnings	48,420	47,413	46,445	46,660	45,765
Total capital	61,225	59,722	58,444	58,217	57,332
Total liabilities and capital	$352,520	$348,690	$348,992	$334,988	$333,827

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Interest income	$3,804	$3,761	$3,651	$3,490	$3,359
Interest expense	(1,765)	(1,735)	(1,622)	(1,475)	(1,386)
Net interest income	2,039	2,026	2,029	2,015	1,973
Provision for loan losses	(1)	(65)	(48)	(59)	(18)
Noninterest income	172	148	228	173	197
Noninterest expense	(786)	(782)	(859)	(748)	(735)
Income before income taxes	1,424	1,327	1,350	1,381	1,417
Provision for income taxes	(44)	(39)	(30)	(18)	(34)
Net income	$1,380	$1,288	$1,320	$1,363	$1,383